

March 31, 1999

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SUBJECT: Review of the Atlanta Olympic Facility Improvement Plan Audit Report  
Number FA-AR-99-001

This report presents the results of our review of the Atlanta Olympic Facility Improvement Plan. In January 1998, Congressman John M. McHugh, Chairman, Subcommittee on the Postal Service Committee on Government Reform and Oversight, requested OIG review the circumstances surrounding the termination of the Atlanta Federal Center Post Office construction project. During that review, OIG became aware that the Federal Center Post Office project was part of the larger Improvement Plan initiative. This audit addressed the entire Improvement Plan.

The audit disclosed that the Improvement Plan did not receive approval and oversight at the appropriate level and that approved deviations were costly to the USPS. Management agreed with 10 of the 13 recommendations and has planned or implemented actions that are responsive to the respective audit recommendations. For the three recommendations where management did not agree, we either revised the recommendations based on the concerns management raised, or addressed the issues further in our evaluation of management comments.

The courtesy and cooperation shown the auditors by your staff is appreciated. If you have any questions, please have your staff contact me or Richard Chambers, Deputy Assistant Inspector General for Performance, at (703) 248-2300.

*//Signed//*  
Sylvia L. Owens  
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Attachment

cc: [REDACTED]  
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## EXECUTIVE SUMMARY

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### Introduction

The Atlanta Olympic Facility Improvement Plan (Improvement Plan) was designed to implement a unique program to provide a positive image for the United States Postal Service (USPS), ensure efficient and responsive customer service, and meet revenue projections for the 1996 Summer Olympics in Atlanta. To implement the plan, USPS officials established two dedicated teams, one to initiate facility improvements and a second to manage other aspects of the Olympic program. In January 1995, the Improvement Plan consisted of 34 projects with an estimated cost of \$14.6 million. The final program consisted of 42 projects<sup>1</sup> costing approximately \$24 million.<sup>2</sup>

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### Results in Brief

In January 1998, Congressman John M. McHugh, Chairman, Subcommittee on the Postal Service Committee on Government Reform and Oversight, requested that the Office of Inspector General (OIG) review the circumstances surrounding the termination of the Atlanta Federal Center Post Office construction project. During that review, OIG became aware that the Federal Center Post Office project was part of the larger Improvement Plan initiative. This audit is a review of the entire Improvement Plan. The objectives of the audit were to evaluate whether USPS officials who developed and implemented the Improvement Plan:

- received appropriate approval and oversight;
- adequately developed and included cost controls over contracts, projects, and modifications;
- ensured that leased space requirements and leases were negotiated in the best interest of the USPS; and
- used efficient contracting practices and followed USPS policies and procedures for contractor selection.

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<sup>1</sup> This includes the Phoenix station project that was the replacement for the Federal Center Project.

<sup>2</sup> This cost does not include the approximately \$5 million spent for Olympic activities other than facility improvements or an additional \$1 million in custodial costs.

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**Management  
Accomplishments**

Overall, USPS officials who developed and implemented the Improvement Plan met their objectives. Specifically, officials:

- leased or renegotiated leases for 20 facilities, and assembled, awarded, and managed numerous contracts during a time of high construction/labor demand in the Atlanta area; and
- completed 39 of the 42 projects in time for the 1996 Summer Olympic Games.

Because the Improvement Plan was such a comprehensive initiative, officials used a dedicated team concept specifically designed to coordinate facility improvements in time for the Olympic Games. This concept, or certain aspects of it, could be employed USPS-wide on other special projects of this nature, such as the 2002 Winter Olympics in Salt Lake City.

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**Areas for  
Improvement**

Although USPS officials met their overall objectives, we noted several areas where development and execution of the Improvement Plan could have been improved. Specifically:

- the Improvement Plan did not receive approval and oversight at the appropriate level. As a result, appropriate officials did not approve the project, and were not aware of subsequent changes in scope and project criteria. These changes contributed to an increase in cost of at least \$9 million (62%) over original projections;
- USPS policies and procedures for construction and renovation projects, as well as for leasing new facilities allow for deviations when warranted under certain conditions. As a result of time constraints and other factors, officials authorized deviations from policies and procedures for some Improvement Plan projects. These deviations resulted in over \$5.6 million in additional costs. However, prompt action can reduce this cost by at least \$1.5 million; and

- management used indefinite quantity contractors for the majority of the Improvement Plan work. Although this reduced the contracting cycle considerably, this approach, along with the compressed time schedule, increased contracting costs more than 40%. Additionally, acceptance of modifications to offers submitted after the time of receipt of proposals, though allowed by USPS policies and procedures, was not always in USPS' best interest, and USPS guidance was not available in another instance.

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**Recommendations**

As a result of the audit, the following recommendations are made:

1. Seek clarification from the Board of Governors on applicability of unitary plan approval for unique plans such as the Improvement Plan.
2. Ensure that future projects, such as the facilities improvement plan for the 2002 Winter Olympics in Salt Lake City are approved in accordance with Board of Governors' guidance.
3. Ensure that facility renovation and construction projects are planned in time to preclude unnecessary expenditures.
4. Ensure that facility renovation and construction projects are validated in terms of need, cost effectiveness, operational feasibility, and space requirements in accordance with USPS policies and procedures.
5. Ensure that facility renovation and construction projects are completed in accordance with USPS policies and procedures except when officials document exceptions as being in the best interest of the USPS.
6. Thoroughly inspect and monitor facilities to ensure that safety and environmental requirements are met prior to leasing and occupying facilities.
7. Require the lessor to abate remaining asbestos in the Alps Road Facility.

8. When no offer meets advertised space requirements, and less desirable space must be accepted, every effort should be made to reach potential offerors who did not respond to the initial advertisement.
9. Determine the feasibility of subletting the 20,000 square feet of excess space at the Alps Road Facility. This would offset the annual lease costs by at least \$150,000 annually or \$1.5 million over the remaining lease period.
10. Ensure installation of necessary security cameras in the carrier area at the Alps Road Facility.
11. Be more prudent in using indefinite quantity contractors for purposes beyond the original intent.
12. When accepting modifications to proposals, document the rationale for determining the modification is in USPS' best interest.
13. Establish guidance for documenting the propriety and responsibilities for offerors responding as joint ventures.

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**Summary of  
Management  
Comments**

OIG received comments from several USPS officials in response to the draft report. Overall, officials agreed with 10 of 13 recommendations in the report and disagreed with the remaining three. The responses from these officials are summarized below. The responses to specific recommendations are summarized in the corresponding sections of the report, and management's replies to the OIG, in their entirety, are appendixes to this report.

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Chief Financial Officer  
and Senior Vice  
President

The Chief Financial Officer and Senior Vice President did not agree with recommendation 1 and indicated clarification of the unitary plan concept is not needed. He believed the Improvement Plan was not a unitary plan requiring the Board of Governors' approval because he believed it lacked a revenue objective expected in a unitary plan. He agreed with recommendation 2. (The full text of the response is provided at Appendix A.)

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Manager, Retail  
Operations Support

The Manager of Retail Operations Support responded on behalf of the Vice President, Retail, and concurred with recommendations 3, 4, and 5. He agreed to better



Coordinate with USPS Facilities and area retail operations on issues raised in our report. (The full text of the response is provided at Appendix B.)

Vice President, Facilities	The Vice President, Facilities, agreed with recommendations 6 and 7, but believed recommendations 8, 11, and 12 were too restrictive. In addition, his response indicated that Facilities officials do not believe the audit reflects the environment in which they were operating—"a shortened time frame and a very challenging construction climate..." The Vice President, Facilities also did not agree with OIG's conclusion that his staff's methods resulted in over \$5.6 million in additional costs and that the use of indefinite quantity contractors increased contracting costs by more than 40%. (The full text of the response is provided at Appendix C.)
Vice President, Southeast Area Operations	The Vice President, Southeast Area Operations, agreed with recommendations 9 and 10, but was skeptical of the potential savings from subletting excess space at the Alps Road facility. (The full text of the response is provided at Appendix D.)
Vice President, Purchasing and Materials	The Vice President, Purchasing and Materials, agreed to forward recommendation 13 to USPS Policies and Legal for review. (The full text of the response is provided at Appendix E.)
<b>Evaluation of Management's Comments</b>	<p>Management officials generally addressed the issues raised in this report. However, we do not agree with their responses related to the unitary plan, the costs associated with the construction climate, the shortened construction time frame, and the use of indefinite quantity contractors.</p> <p>The shortened time frame and the construction climate are the core issues in this report. Specifically, we believe that officials placed too much emphasis on renovating and upgrading facilities prior to the opening of the 1996 Olympics, especially given the high cost construction environment. As the report indicates, numerous problems emerged because management expedited construction under the environments stated above. Management had six years to plan for the Olympics, but did not initiate the Improvement Plan until approximately 22 months prior to the Olympic Games.</p>

We agree that some situations require expeditious action and, perhaps, deviations from policies and procedures, i.e. emergency, health, safety, etc. However, meeting the Olympics opening date was, in our opinion, not such a situation.

In regard to the OIG's analysis of the increased cost associated with using indefinite quantity contractors, it was not, as contended by management, based on a single project. To the contrary, we based this analysis on the cost of the approximately 35 Improvement Plan projects where the USPS used an indefinite quantity contractor. We compared the cost of these projects to similar indefinite quantity contract projects in a normal (less challenging) construction environment for a higher cost construction area and with the cost for work accomplished using standard contracting procedures.

The analysis showed that the USPS paid at least 40% more than normal because of the construction environment and the expedited construction time frame. In fact, local USPS officials' own documentation indicated the cost was at least 30% higher because of the Olympic construction environment.

## INTRODUCTION

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In April 1994, local USPS officials in Atlanta proposed to spend approximately \$6 million to provide a positive image and ensure efficient service during the 1996 Summer Olympic Games in Atlanta. By January 1995, the program cost projections had increased to approximately \$14.6 million to upgrade or improve 34 facilities. A dedicated team was established to manage the facility improvement program. The final program had an estimated cost of at least \$24 million<sup>3</sup> and consisted of at least 42 projects.<sup>4</sup>

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### Objectives

In January 1998, Congressman McHugh requested that the OIG review the circumstances surrounding the termination of the Atlanta Federal Center Post Office construction project. During that review, OIG became aware of the fact that the Federal Center Post Office project was part of the larger Improvement Plan initiative. This audit is a review of the entire Improvement Plan. The objectives of the audit were to evaluate whether USPS officials who developed and implemented the Improvement Plan:

- received appropriate approval and oversight;
- adequately developed and included cost controls over contracts, projects, and modifications;
- ensured that leased space requirements and leases were negotiated in the best interest of the USPS; and
- used efficient contracting practices and followed USPS policies and procedures for contractor selection.

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### Scope and Methodology

To accomplish our objectives, we reviewed selected planning, and cost data from April 1994 to June 1998. We reviewed construction and renovation cost data for 42 projects. We evaluated contracts and lease agreements, Decision Analysis Reports, Justifications of Expenditure documents, and other pertinent project costs and planning data. We judgmentally selected 14 projects<sup>5</sup> to evaluate the

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<sup>3</sup> Management could not provide an accurate cost for the program.

<sup>4</sup> Depending on the documentation, the number of projects included in the Improvement Plan, including the Phoenix station project that replaced the Federal Center Project, varied from 42 to 43 projects.

<sup>5</sup> The Phoenix Station was not part of our original review. We included it as part of the cost effect of the program.

effect of contract modifications, the contracting process, lease agreements, and other policy issues. We toured selected locations that were completed or still under construction. This audit was accomplished in accordance with generally accepted government auditing standards and included such tests of management controls as deemed necessary under the circumstances. Audit fieldwork was accomplished between February and August 1998.

## PROGRAM COST GROWTH

### Background

At the request of the Vice President, Southeast Area Operations, Headquarters USPS officials approved the Improvement Plan concept in 1994. The Vice President, Facilities concurred in November 1994 with specific scope and criteria for the Improvement Plan, but advised requesting officials that the compressed timeline would result in a higher cost. At that time, two-thirds of the projects were to be lobby/facility upgrades and the remaining third were slated to be new or replacement facilities.<sup>6</sup>

To accomplish the program prior to the 1996 Olympics and to meet other facility improvement goals, USPS Headquarters Facilities agreed: (1) no new construction would be undertaken, since leasing would be more expedient; (2) Improvement Plan projects would be located in close proximity to Olympic venues and designated public service areas; and (3) to waive the requirement to publicly advertise for locations.

In January 1995, the former Atlanta District Manager requested \$14.6 million for 34 projects included in the Improvement Plan. Since the goal was to complete the facilities by July 1996, management compressed the facilities into one comprehensive capital investment plan with its own budget, funding, and management. The plan projected revenues of at least \$20 million during the Olympics. The final program consisted of 42 projects costing approximately \$24 million.

### Results

Construction projects costing \$10 million or more must have USPS Board of Governors' approval. Also, the Board of Governors' by-laws state that "All such projects and agreements undertaken as part of a unitary plan (either for contemporaneous or sequential development in one of several locations) shall be considered one project or agreement..."

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<sup>6</sup> These numbers are based on 34 facilities and a letter to the Vice President, Facilities, indicating that two thirds of the projects would be lobby/facility upgrades and the remainder new or replacement facilities.

**BOG Approval and Oversight**

Even though the Improvement Plan exceeded the \$10 million Board of Governors' approval threshold, USPS officials did not submit it to the Board of Governors for approval.<sup>7</sup> This occurred because USPS Headquarters and local officials decided that the unitary plan criteria did not apply. In their opinion, the projects were already in the Atlanta facility improvement plan for completion after the Olympics, and the Improvement Plan merely compressed the projects into a single initiative. Regardless of whether the projects were already planned, when officials consolidated projects into a single plan for simultaneous completion, the criteria for "contemporaneous or sequential development in one of several locations" became applicable. Because the Board of Governors did not approve the original project or subsequent changes in scope and project criteria, the Board of Governors did not have input or control over changes and were unaware of the \$9 million (62%) increase in costs over original projections.

Headquarters USPS officials also told us that they viewed the guidance on unitary plans as unclear. While we believe the guidance is clear enough to have included the Improvement Plan, clarification of this issue would ensure future projects of this nature receive appropriate oversight. One such project is the facility improvement plan for the 2002 Winter Olympics in Salt Lake City.

**Recommendations**

The Chief Financial Officer and Senior Vice President should:

1. Seek clarification from the Board of Governors on applicability of unitary plan approval for unique plans such as the Improvement Plan.
2. Ensure that future projects, such as the facility improvement plan for the 2002 Winter Olympics in Salt Lake City, are approved in accordance with Board of Governors' guidance.

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<sup>7</sup> In a May 1995 Financial Issues Update letter, Headquarters USPS officials informed the Board of Governors' Audit Committee that "43 separate projects costing \$15.8 million" would be completed in the Atlanta area during FYs 1995 and 1996 to take advantage of the projected increased retail activity during the 1996 Olympics.

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**Management  
Comments**

The Chief Financial Officer and Senior Vice President did not agree that clarification on applicability of the unitary plan is needed. The Improvement Plan was not a “unitary plan” requiring the Board of Governors’ approval because it lacked a revenue objective expected in a unitary plan. With respect to recommendation 2, he agreed that USPS will follow the guidance provided by the Capital Projects Committee and the Board of Governors for future projects. It will also seek approval of both entities in accordance with established procedures.

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**Evaluation of  
Management  
Comments**

We believe that the Improvement Plan was a unitary plan because it had a corporate objective to improve the net income of the USPS. The project’s December 1994 Strategic Plan (revised) projected revenues of \$20 million. Further, a system to track revenues was completed in January 1996. We found the comments responsive to recommendation 2.

## CONTRACT, PROJECT, AND MODIFICATION COSTS

<b>Background</b>	<p>To complete the Improvement Plan in time for the 1996 Summer Olympics, officials awarded over 40 contracts. Eight were solicited contracts and the others were accomplished using indefinite quantity contractors. USPS officials used indefinite quantity contractors because they required less time to commence work on individual projects once they were under contract. To further ensure completion of the projects in time for the Olympics, management required contractors to complete work in 90 to 120 days instead of the average 180 to 240 days.</p> <p>USPS investment policies and procedures are designed to improve the efficiency and cost effectiveness of operations while maintaining acceptable levels of service to postal customers. As part of a prudent business strategy, management should use these policies and procedures to arrive at solutions that will increase efficiency or cost effectiveness of operations. Management should plan and justify projects by performing cost analyses, validating assumptions, and assessing operational feasibility.</p>
Planning and Executing the Olympic Facility Plan	<p>Because the USPS did not launch the Improvement Plan early enough, time was not available to adequately plan facility improvements. Specifically, officials did not always:</p> <ul style="list-style-type: none"> <li>• validate or justify costs, or operational feasibility;</li> <li>• adequately identify requirements; and</li> <li>• control scope and criteria changes.</li> </ul> <p>As a result of time constraints and other factors, officials authorized deviations from policies and procedures for some Improvement Plan projects. These deviations resulted in an additional \$5.6 million in costs.</p>
Planning	<p>USPS officials were aware that Atlanta would be hosting the Olympics for almost 6 years prior to the event. However, planning for USPS facility improvements did not begin until approximately 22 months before the Olympics. To compensate for the short time frame, and the demand for construction resources in the Atlanta area, management expedited the construction schedule and paid indefinite quantity contractors up to 42% more than the USPS would have through a competitive solicitation process.</p>



This condition occurred because USPS officials did not make a timely decision to implement the plan. Once the plan was approved, USPS officials have indicated that completing the projects prior to the Olympics was viewed as more important than costs. As a result, the USPS spent at least \$2.4 million more than would have normally been paid to indefinite quantity contractors.

Investment Policies and Procedures	<p>Officials also did not follow USPS policies and procedures for investing in construction and renovation projects. Specifically, officials did not prepare documentation<sup>8</sup> needed to justify and validate costs when warranted. For example, officials decided to relocate the downtown Atlanta Station<sup>9</sup> to the new Atlanta Federal Center as part of the Improvement Plan. If required documentation had been prepared, it would have reflected that the move was neither feasible nor cost effective and was contrary to Improvement Plan criteria. As a result of not following USPS investment policies and procedures, officials expended over \$3.2 million more than necessary.</p>
Requirements	<p>Officials did not effectively identify renovation and construction requirements prior to award of contracts. Specifically, officials waived requirements to complete design reviews before beginning work and, therefore, did not ensure all requirements were included in the contract. For example, of the 14 cases we reviewed, three were modified to include equipment necessary to load and unload mail at the facility docks and two others were modified to include the Inspection Service's security requirements. As a result, contract modifications exceeded the 10% industry norm in all but two of the 14 projects we examined.<sup>10</sup></p>
<b>Scope and Criteria Changes</b>	<p>USPS officials modified the criteria and scope for projects comprising the Improvement Plan throughout execution. To illustrate, in the original plan, about two-thirds of the renovation/construction projects were lobby/facility upgrades and the remaining third were to be new or replacement postal stores. However, during execution, the majority of the projects became postal stores rather than lobby upgrades. Expanding the list of projects and changing the scope of individual projects were costly. In</p>

<sup>8</sup> This project should have had a Decision Analysis Report that would have addressed those issues.

<sup>9</sup> This was the station located at 101 Marietta Street.

<sup>10</sup> Contract modifications ranged from 5%-49% over contract cost and averaged approximately 21% over original contract amount.

reviewing four postal store projects originally slated as lobby upgrades, we noted that costs increased by \$2 million (513%) over original projections for these projects.

The original plan also mandated that projects would be those “either located near Olympic venues, or in high traffic and high revenue areas.” However, no specific criteria were formulated to ensure that guideline was achieved. As a result, facilities were upgraded throughout the metropolitan area and, in some instances, without regard to proximity to Olympic venues. For example, the downtown station was relocated as part of the Improvement Plan to a site farther away from the primary Olympic venues than its original location.

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**Recommendations**

The Vice President, Retail Operations, in coordination with Marketing and Facilities officials, should ensure that facility renovation and construction projects are:

3. Planned in time to preclude unnecessary expenditures.
4. Validated in terms of need, cost effectiveness, operating feasibility, and space requirements in accordance with USPS policies and procedures.
5. Completed in accordance with USPS policies and procedures except when officials document exceptions as being in the best interest of the USPS.

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**Management  
Comments**

Management comments reflect a range of views on our findings and recommendations. The Vice President for Facilities did not agree that USPS methods resulted in over \$5.6 million in additional costs associated with policy deviations and the use of indefinite quantity contractors. On the other hand, the Manager, Retail Operations Support, agreed with our recommendations, and agreed to do the following:

**Recommendation 3.** Coordinate with area and local retail facilities on major, unique projects to ensure requirements are defined and sufficient lead-time exists. With the upcoming Salt Lake City Olympics, he will work with the Western Area to ensure that lead times are met.

**Recommendation 4.** Continue to work closely with Facilities to ensure the best possible cost in terms of space and material. As Headquarters Retail becomes aware of activities such as these unique projects, it will immediately coordinate with Facilities.

**Recommendation 5.** Coordinate with Facilities and the area retail function to assist in ensuring adherence to plans and exceptions that are in the best interest of the USPS.

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**Evaluation of  
Management  
Comments**

Our estimate of \$5.6 million is an accurate representation of additional project costs resulting from deviations from policies and the use of indefinite quantity contractors. This estimate is comprised of:

- \$2.4 million for indefinite quantity contractors,
- \$1.5 million for excess space, and
- \$1.7 million for the Atlanta Federal Center/Phoenix Station

The Manager, Retail Operations Support, has planned appropriate action in response to our recommendations.

## LEASE AGREEMENTS

<b>Background</b>	<p>To complete the Improvement Plan prior to the start of the Olympic Games, officials elected to lease facilities rather than pursue new construction. USPS guidance requires that leased facilities must be in the best interest of the USPS. Alternatives must be evaluated to confirm that leasing is the best means of satisfying USPS needs. Prior to awarding a lease, officials must advertise requirements for leased space and specify the amount of space being sought within a designated geographic area.<sup>11</sup></p> <p>Under normal circumstances, the USPS guidance requires the lessor to pay for asbestos removal/containment and for maintaining or replacing major mechanical or structural elements such as roofs. When seeking a freestanding building of more than 8,500 square feet, USPS real estate personnel must attempt to negotiate an option to purchase.</p>
<b>Results</b>	<p>Leased space was not always negotiated in the USPS best interest and did not always meet safety, security, and space requirements. This condition occurred because officials did not follow USPS policies and procedures.</p>
<b>Safety and Security</b>	<p>In one facility, testing for asbestos-containing material was not accomplished prior to lease signing and building occupancy. Following occupancy, the lessor paid to have the asbestos abated. However, USPS real estate officials did not monitor to ensure complete removal or containment of the asbestos, and did not thoroughly inspect the facility following abatement. Some non-friable asbestos remains and could become a USPS liability if USPS decides to renovate the space. This facility also did not have required security cameras in the mail carrier area. The current estimated cost for these cameras is approximately \$200,000.</p>
<b>Space Requirements</b>	<p>Several locations either contained more space than needed or not enough. For example, the new Phoenix Station contains only 8,600 square feet, though 13,000 square feet was the stated requirement in the USPS advertisement. On the other hand, at least three locations with considerably less volume and operations than the Phoenix Station contained more space. These conditions existed because space requirements were based on what was currently</p>

<sup>11</sup> Exceptions are authorized if an emergency exists.

being utilized or available, instead of on a range of minimum to optimum. To illustrate, the advertisement for the Phoenix Station requested 13,000 square feet, therefore, other potential lessors with less than 13,000 square feet, but more than 8,600 square feet,<sup>12</sup> would not have responded.

Although management received an excellent cost per square foot for another location, (Alps Road) the lease was for more space than needed. This condition occurred because the real estate official considered the acquisition a bargain and believed the excess space could be used for training. However, Atlanta District officials did not have any plans to use the excess space for training. Therefore, this space (approximately 20,000 square feet) could be sublet and thereby reduce USPS costs by \$1.5 million over the next 10 years.

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**Recommendations**

The Vice President, Facilities should require that Real Estate and other personnel involved in special facility projects follow USPS procedures for leasing facilities. Specifically:

6. Thoroughly inspect and monitor facilities to ensure that safety and environmental requirements are met prior to leasing and occupying facilities.
7. Require the lessor to abate remaining asbestos in the Alps Road Facility.
8. When no offer meets advertised space requirements and less desirable space has to be accepted, every effort should be made to reach potential offerors who did not respond to the initial advertisement.

The Vice President, Southeast Area Operations, should:

9. Determine the feasibility of subletting the 20,000 square feet of excess space at the Alps Road postal facility. This would offset the annual lease costs by at least \$150,000 annually or \$1.5 million over the remaining lease period.
10. Ensure installation of necessary security at the Alps Road Post Office.

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<sup>12</sup> The lessor's response to the advertisement was that over 13,000 square feet was available. However, over 5,000 square feet of that amount were later determined to be in the building's common area.

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**Management  
Comments**

The Vice President, Facilities, concurred with our recommendations and offered the following:

**Recommendation 6.** He concurred with the OIG's recommendation because it described USPS normal policy; however, time constraints can alter the policy in cases where the environmental issues pose no danger, i.e., the Alps Road case. the decision to occupy the facility prior to asbestos removal made sense since no health hazard existed. Further, the recommendation only applies to one facility.

**Recommendation 7.** Although unaware of any environmental issues at the Alps Road facility, the owner will abate any asbestos discovered.

**Recommendation 8.** OIG's recommendation is overly restrictive because advertising is only one of several methods to identify space. Before moving to the Phoenix Station, Facilities staff physically canvassed the preferred area to determine possible vacant space, and found none suitable.

The Vice President, Southeast Area, concurred with our recommendations and offered the following:

**Recommendation 9.** He agreed to sublet excess space at the Alps Road facility. However, he was skeptical of the estimate of the potential cost savings to USPS from subletting the space.

**Recommendation 10.** He indicated that actions were being taken to implement OIG's recommendation. The Atlanta District has budgeted for a security system at the Alps Road post office and will complete installation of the system this fiscal year.

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**Evaluation of  
Management  
Comments**

Management comments were responsive to most of our recommendations; however, management believed recommendation 8 to be too restrictive. Comments also indicated skepticism of our estimate in recommendation 9 of the potential sublease value of excess space at the Alps Road facility. With regard to management's comments:

**Recommendation 8.** We revised our recommendation to provide USPS officials more latitude in identifying space to meet its requirements. While advertising may not be practical in every case, we continue to believe that USPS officials should make every effort to contact other offerors when they are unable to procure the appropriate size facility as initially advertised.

**Recommendation 9.** We believe that actions planned by the Vice President, Southeast Area, to sublet the vacant space at the Alps Road facility fully address our recommendation. Our estimate of the potential cost savings from subletting the space was based on the price per square foot USPS is paying for the Alps Road facility. A more precise estimate can be determined later based on a market analysis of property values for that area.

## CONTRACTOR SELECTION PROCESS

<b>Background</b>	<p>Indefinite quantity contractors are normally used for repairs and alterations costing up to \$250,000. As part of the Improvement Plan, Major Facilities Purchasing approved deviations to that criteria. Revised criteria allowed for expedient construction of Improvement Plan projects with an estimated construction cost of less than \$500,000. These contracts were awarded through “simplified purchasing.” For Improvement Plan projects with estimated costs of construction exceeding \$500,000, Major Facilities Purchasing required the Atlanta Facilities Service Office to award the contracts using the standard competitive purchasing method. Based on the final cost estimates for the Improvement Plan, the competitive purchasing requirement was applicable for eight<sup>13</sup> Olympic Facility Projects.</p>
<b>Results</b>	<p>USPS officials used indefinite quantity contractors for the majority of the renovation and construction projects. However, work accomplished by indefinite quantity contractors cost significantly more than comparable work accomplished using the solicitation process. Additionally, USPS officials accepted modifications to initial offers after proposal opening and did not require or request documentation on firms responding as a joint venture.</p>
<b>Indefinite Quantity Contractors</b>	<p>The use of indefinite quantity contractors for most of the Improvement Plan allowed work to be done more expeditiously, given the time constraints, but was not cost effective. Specifically, the cost of work accomplished using indefinite quantity contractors was significantly higher than comparable work using the solicitation process. This situation existed for several reasons. First, management allowed indefinite quantity contractors to perform major renovations instead of the customary repairs and alterations. Second, the special unit price schedule developed for indefinite quantity contractors pricing by the architectural and engineering firm averaged 42% higher than competitive solicitations for the same work. Third, to encourage the indefinite quantity contractors to complete the work prior to the Olympics, management paid almost double the normal premium on indefinite quantity contracts.</p>

<sup>13</sup> One project was later postponed until after the Olympics.



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<b>Contractor Selection</b>	<p>USPS officials accepted modifications to an offeror's proposals after the proposal opening. In one instance, the offeror's modification decreased the initial offer and the offeror was subsequently awarded the contract since it was viewed to be in the USPS best interest. However, by the end of that contract, modifications accounted for a 20% increase over the original contract amount, the highest among solicited contracts. The acceptance of modifications from offerors after the time specified for receipt of proposals, while in accordance with USPS policy, may not always be in USPS best interest and could compromise the integrity of the solicitation process. Not accepting proposals after the proposal opening could also prevent USPS from being subjected to protests or other financial liability.</p> <p>In another instance, officials had not developed adequate procedures when existing procedures did not apply. Specifically, officials had not developed guidance on documentation required when the offeror was a joint venture. As a result, we observed that documentation did not exist to show either the propriety or the responsibilities of a joint venture that submitted an offer. Establishing guidance for documentation required of joint ventures would strengthen the USPS position in the event of a contract dispute.</p>
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**Recommendations**

The Vice President, Facilities, should require that contracting officials:

11. Be more prudent in using indefinite quantity contractors for purposes beyond the original intent.
12. When accepting modifications to proposals, document the rationale for determining the modification is in USPS best interest.

The Vice President, Purchasing and Materials, in conjunction with the Vice President, Facilities, should:

13. Establish guidance for documenting the propriety and responsibilities for offerors responding as joint ventures.

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**Management  
Comments**

The Vice President, Facilities, did not agree that contracting costs increased by more than 40% as a result of using indefinite quantity contractors. He indicated that developing a cost estimate based on a single project was flawed because it did not reflect the dynamics of the construction environment and time frames in which work had to be completed. Additionally, he disagreed with recommendations 11 and 12, indicating:

**Recommendation 11.** Facilities officials are permitted to use alternate methods, such as indefinite quantity contractors, when justified, and “the auditors do not understand our policies.” The extraordinary construction environment, the short time frames available to accomplish renovations, and the fact that indefinite quantity contractors can mobilize quickly and are flexible on project scope were sufficient justification. Facilities officials want to continue to have this flexibility to respond to unique situations and indicated USPS would not have completed the majority of the facilities in time for the Olympics had it not been for the use of indefinite quantity contractors.

**Recommendations 12.** USPS policy allows for modification or withdrawal of proposals before contract award when it is determined to be in the best interest of the USPS (significant cost, quality, or technical benefit). Each late proposal must be retained in the solicitation file with a statement as to whether it was considered and the rationale as to why or why not. He does not believe current policy compromises the integrity of the process.

**Recommendation 13.** He would forward our recommendation to both Policies and Legal for review and comment.

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**Evaluation of  
Management  
Comments**

Our calculation of increased contracting costs of over 40% was based on a comprehensive analysis of contracts and construction costs. The methodology applied was approved by our quantitative methods staff. The increase was derived by comparing:

- USPS cost estimates for seven solicited contracts in the Improvement Plan with the actual bid proposals obtained through the solicitation; and

- multipliers in the Atlanta area (typically, an average cost construction market) with the multipliers in the Washington metropolitan area (a high cost construction area) for the same type of work.

Local USPS officials acknowledge that the cost of work done through indefinite quantity contractors was at least 30% higher because of the Olympic construction environment.

In response to the Vice President's comments, we revised recommendations 11 and 12 to make them less restrictive.

In addition, we offer the following comments:

**Recommendation 11.** We believe USPS policy requires managers to be prudent stewards of USPS funds. We agree that the policy permits the use of deviations with indefinite quantity contractors, with appropriate justification. However, since the USPS was not a sponsor of the 1996 Olympics, completing the work in time for the Olympics at a 40% (\$2.4 million) increase in cost was, in our opinion, not appropriate justification.

**Recommendation 12.** As USPS officials acknowledge in their response, appropriate documentation should be maintained on file to substantiate the reasons for accepting modifications. However, due to inadequate documentation, we were unable to determine whether modifications to proposals for the Improvement Plan were in USPS best interest.

**Recommendation 13.** Management's agreement to forward recommendation 13 to USPS Policies and Legal is responsive to our finding.

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**Major Contributors to  
this Report**

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

**Other Contributors were:**

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

M. Richard Pomras  
Western Area Office  
Salt Lake City, Utah



November 10, 1998

SYLVIA L. OWENS

SUBJECT: Revised Draft Audit Report - Atlantic Olympic Facility Improvement Plan  
(FLG-AR-98-XXX)

We have reviewed the revised draft report dated October 26. As you stated in your transmittal memorandum, there were few changes in the conclusions and recommendations. The recommendations identified for the vice president controller were unchanged. Therefore, I do not feel that my response of September 15 requires amending. A copy of that response is attached.

We will continue to follow established procedures in seeking approval and guidance, if warranted and whenever necessary, for all projects, not just any future Olympic related activity. Currently, the Western Area is evaluating if any additional work is necessary, because the Olympics will be held there in 2002, beyond what would be normally planned in the Salt Lake City area. That additional work will be approved in accordance with the established policy.

A handwritten signature in black ink that reads "M. Richard Pomras".

M. Richard Pomras

Attachment

cc: [redacted]  
[redacted]



September 15, 1998

SYLVIA L. OWENS

SUBJECT: Atlanta Olympic Facility Improvement Plan - Draft Audit Report  
Report No. FIC 98-08-0001

We have reviewed the draft report, titled the USPS Atlanta Olympic Facility Improvement Plan, and offer the following response to the recommendations identified for the Vice President, Controller's responsibility. Also, see attached for the responses to your specific recommendations.

The plan to upgrade facilities in the Atlanta area was discussed at length by USPS Headquarters to determine whether the renovation and replacement of the facilities in the Southeast Area should be considered under a single plan. Several factors led to the decision not to consider this work as a single project (unitary plan):

- Visits by senior officers confirmed that the general condition of the retail facilities was deplorable.
- The work scheduled to be performed would have been accomplished over time regardless of the Olympics.
- Olympic sponsorship was not an issue as it was with the 1992 Olympics.
- Additional revenue as a result of this action would not be projected to the USPS bottomline.

The projects were advanced in priority to improve customer service during the Olympics. USPS Headquarters officials informed the Audit Committee of the Governors of this decision via letter and also discussed it with them at the subsequent meeting.

With the advent of the Board of Governors, Capital Projects Committee (CPC), management seeks their guidance and clarification on the understanding and applicability of unitary plans as well as other investment concerns. However, management will continue its practice of debating internally on the possible approaches or alternatives when presented with projects similar in nature to those discussed in this audit. In accordance with established procedures, management will seek approval by the CPC on these projects, including the 2002 Olympics, if warranted. Management will follow any guidance provided by the CPC and the Board.

If you have any questions, please call me or Chuck Hartsack at 202-265-3382.

M. Richard Pomas

Attachment

cc: [redacted]  
[redacted]

475 L'Enfant Plaza SW  
Washington, DC 20020-3000

[redacted]  
[redacted]

Attachment

**Recommendations:**

The Vice President, Controller should:

1. Seek clarification from the Board of Governors on applicability of unitary plan approval for unique plans such as the Atlanta Olympic Facility Improvement Plan; and
2. Ensure that future projects, such as the facility improvement plan for the 2002 Winter Olympics in Salt Lake City, are approved in accordance with Board of Governors guidance.

**Management Comments/Response:**

1. Clarification on applicability of the unitary plan concept is not needed. In accordance with the Bylaws of the Board of Governors, "projects and agreements undertaken as a part of a unitary plan (either for contemporaneous or sequential development in one of several locations) shall be considered one project or agreement."  
The advancing of enhancements to facilities to improve customer services and our image during the 1996 Olympics in Atlanta was not a unitary plan. There was no corporate objective to improve the net income of the Postal Service as a result of any implied synergistic impact that a unitary plan would be expected to produce. In contrast, the sponsorship of the 1992 Olympics was a unitary plan developed to improve the net income of the Postal Service, was presented to and approved by the Board.
2. In accordance with established procedures, management will seek approval and guidance, if necessary, from the Capital Projects Committee on these projects, including the 2002 Olympics, if warranted. Management will follow the guidance provided by the CPC and the Board, and will gain the approval of the CPC and the Board in accordance with their Bylaws.

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USPS RETAIL SUPPORT

002



February 18, 1999

SYLVIA L OWENS  
ASSISTANT INSPECTOR GENERAL  
REVENUE AND COST CONTAINMENT

SUBJECT: Transmittal of Revised Draft Audit Report-Atlanta Olympic  
Facility Improvement Plan (FLG-AR-99-XXX)

Pam Gibert, Vice President, Retail, asked that I respond to your draft audit report on the Atlantic Olympic Facility Improvement Plan, specifically recommendations 3-5. I have attached responses to each of those recommendations.

I would also offer that we are working on a number of initiatives to improve site selection, design, and type of service offered, so the field can provide the right service at the right place in the most cost efficient manner to serve the customer. These initiatives will provide the field with the tools they need to make the right decisions at the district and area level. Of course, the headquarters function would be available to provide assistance, but the district is in the best position to know the needs of their customers. For major projects such as the Atlantic Olympics, we will coordinate with the areas to assist them in making the best decisions from a customer service and investment standpoint early on in the development stage.

If you have any questions, please call me on 202-268-5115.

A handwritten signature in black ink, appearing to read "F. Hintenach", written over a horizontal line.

Frederick J. Hintenach  
Manager  
Retail Operations Support

Attachment

cc: Ms. Gibert

475 L'ENFANT PLAZA SW  
WASHINGTON, DC 20260



**Recommendations**

3. "Planned in time to preclude unnecessary expenditures."

Renovation and construction projects are managed at the local level through Facilities. All time frames are established by the Facilities Function. In the future, we will coordinate with area and local retail facilities on major, unique projects to ensure requirements are defined and sufficient lead-time exists. With the upcoming Salt Lake City Olympics, we will work with the Western area to ensure that the lead-times are met. However, the emphasis in Salt Lake City will be on temporary units and minimum renovations.

4. "Validated in terms of need, cost effectiveness, operating feasibility, and space requirements in accordance with USPS policies and procedures."

As was noted in the beginning of the report, the Atlantic Olympic Facility Improvement Plan (AOFIP) was designed to implement a unique program to provide a positive image of the United States Postal Service (USPS), ensure efficient and responsive customer service, and meet revenue projections for the 1996 Summer Olympics in Atlanta.

This was truly a unique program of renovating a large number of existing facilities and adding some new ones. Retail works very closely with Facilities to ensure the best possible costs in terms of space and materials. As Headquarters Retail becomes aware of activities such as these, it will immediately coordinate with Facilities.

5. "Completed in accordance with USPS policies and procedures except when officials document exceptions as being in the best interest of the USPS."

In the future, Retail will coordinate with Facilities and the Area Retail function to



December 7, 1998

SYLVIA L. OWENS  
ASSISTANT INSPECTOR GENERAL  
FOR REVENUE AND COST CONTAINMENT

SUBJECT: Audit Report - Atlanta Olympic Facility Improvement Plan

We have received and reviewed the draft report of the subject audit. We believe the Facilities staff did an outstanding job in responding to the facility needs identified by local and area operations and retail managers as part of this program. Due to the fact that many decisions were made by operations and retail much later than normally would be the case in facility planning, Facilities had to utilize all necessary expedited processes and contracting methods available in order to provide as many facilities as possible prior to the August 1996 Olympic Games.

Therefore, we continue to disagree with some of the findings and recommendations in the audit, since they do not reflect the environment in which we were operating—a shortened time frame and a very challenging construction climate, due to the massive construction being undertaken in the greater Atlanta area as part of Olympic preparations. Specifically, we can find no basis in fact for the statements that our methods "resulted in over \$5.6 million in additional costs" and that our use of Indefinite Quantity Contractors (IQCs) "increased contracting costs by more than 40%." It is our understanding that these figures were based on two factors:

- 1) The decision not to occupy the Atlanta Federal Center. We previously have responded to the audit of the Atlanta Federal Center project. The decision not to occupy that facility was not the result of how policy was applied; instead, it was based on a number of factors, including the increased security requirements put in place at federal buildings following the bombing in Oklahoma City.
- 2) Taking the difference in costs for a single project (of the 42 projects), which had pricing from an IQC and from a separate solicitation, and applying it to all projects. Such an analysis is flawed and cannot be applied to all projects because it does not reflect the dynamics of the construction environment and the time frames in which the work had to be completed.

The following are our specific responses to the recommendations:

Recommendation 6: Thoroughly inspect and monitor facilities to ensure that safety and environmental requirements are met prior to leasing and occupying facilities.

Response: This recommendation applies to one facility—Alps Road. We concur with the recommendation, since it is our normal policy. However, time constraints can alter this policy in cases where the environmental issue poses no danger. This was the case at Alps Road, where the facility was occupied and a subsequent environmental survey identified asbestos-containing materials in the floor tile in the lower-level space. Since there was no health hazard, the decision to occupy prior to removal made sense. The issue was addressed some months later and the asbestos-containing materials was removed and disposed of at the owner's cost. Subsequent minor, non-hazardous issues were identified and corrected.

- 2 -

Recommendation 7. Require the lessor to abate remaining asbestos in the Alps Road facility.

Response: Neither the Facilities staff nor the local staff are aware of any outstanding environmental issues at the Alps Road facility. However, if such items are discovered, we will require the owner to abate them.

Recommendation 8. Adjust the space requirements and readvertise for leased facilities when no offer is received that meets the advertised space requirements.

Response: This recommendation applies to one facility—Phoenix Station. We cannot agree with the recommendation because it would be overly restrictive. It should be understood that while we make considerable use of advertising, advertising is not required and is only one of several methods used to identify space. In this case, we were required to vacate the existing Downtown Station as soon as possible. In addition to the first advertisement, our facilities staff physically canvassed the preferred area to determine possible vacant space, and found none suitable. Therefore, it made sense to proceed with the space offered for the Phoenix Station.

Recommendation 9. Determine the feasibility of subletting the 20,000 square feet of excess space at the Alps Road postal facility. This would offset the annual lease costs by at least \$150,000 annually or \$1.5 million over the remaining lease period.

Response: While this is addressed to the Vice President, Southeast Area Operations, we believe a response is also necessary from a Facilities standpoint. We do not feel that the vacant space has a high outlease potential. It is less than 20,000 square feet, it is on the basement level, its entrance is via a stairway, there is no parking at the lower level, there is no dock for this space (nor is there a practical way to construct one), and it would require renovation. All of these impact both the ability to attract a tenant and the amount of rent we could receive. If the Atlanta District declares the space excess, we will market the property. However, if a tenant is found, we do not believe that the space would generate the \$150,000 per year, or \$1.5 million over the remaining lease period, as noted in the audit.

Recommendation 11. Use IQCs only as originally intended, i.e., for repairs and alterations under \$250,000.

Response: We strongly disagree with this recommendation and feel the auditors do not understand our policies. Our policies permit alternate methods to be approved when justified. Our request for a deviation to use IQCs was approved based on the extraordinary construction environment and the short time frame available to accomplish renovations, since IQCs can mobilize quickly and are flexible on project scope. We must continue to have flexibility in our policies and procedures to be able to respond to unique situations. If we had not been able to use IQCs, we would not have completed the majority of facilities in time for the Olympics.

Recommendation 12. Refrain from accepting modifications to proposals after the time of receipt of proposals in order to preserve the integrity of the solicitation process. If an exception is authorized, document USPS rationale for determining that acceptance of the modification is in USPS' best interest.

- 3 -

Response: We disagree with this recommendation {and are somewhat confused by it since it recommends a) not accepting modifications and b) accepting with documentation}. Again, we feel the auditors do not understand Postal Service policies. Our contracting procedures in the Purchasing Manual (PM) appropriately allow contractors to modify or withdraw their proposals up to time of award. The PM also allows the contracting officer to evaluate and accept proposals/modifications received prior to contract award when the contracting officer determines it is in the best interest of the USPS. This policy has been in place for more than a decade and does not compromise the integrity of our process. As for the second part of the recommendation, the modifications in question were price reductions and were noted in the contract file. It would seem to be overly bureaucratic to require written documentation as to why a contracting officer felt it was in the best interests of the USPS to accept a lower price. This recommendation also is based on the auditors' belief that the lower price resulted in future modifications to the contract which increased its price. That was not the case; instead, modifications to this and many other contracts for this program were the result of a changed scope of work, and would have applied to any of the original proposals received.

In summary, we believe the Facilities organization responded quickly and appropriately, using the policies and procedures available to us, to meet the needs of the organization as identified for this program.





December 11, 1998

MEMORANDUM FOR: Sylvia L. Owens  
Assistant Inspector General  
For Revenue and Cost Containment

SUBJECT: Atlanta Olympic Facility Improvement Program  
Report No. QIC/E-G 99-XXX (10/26/98)

In addition to the specific comments in our reply of December 1, 1998, we would like to add the following. These remarks address the Inspector General's report and conclusion in a more general format.

In June 1994, the Postal Service underwent a minor reorganization in which the two Area Managers (Customer Services and Processing and Distribution) were replaced with a single Area Vice President, David C. Bakke, for the Southeast Area.

Shortly after Mr. Bakke assumed his position, Jeff Martin, District Manager of the Atlanta District, came forward with a proposal for facility improvements in response to the upcoming 1996 Atlanta Summer Olympic Games. Mr. Bakke endorsed the program in concept and began to work with senior management at USPS Headquarters to accomplish the desired objectives. Ultimately, the program would involve renovations to 42 facilities within the Atlanta District. As your report notes, 39 facilities were completed in time for the Olympic Games.

To accomplish this objective in a very limited time frame required full cooperation of all parties involved in the District, the Area Office, the Facilities group and senior management at USPS Headquarters. It also involved a number of shortcuts and compromises to existing USPS procedures and policies. Contracting itself became very expensive during this time frame as a number of different organizations, private and public, began building programs in response to the 1996 Olympic games. There is no question that the accelerated pace of this program resulted in increased costs to the Postal Service. There should also be no question that the completion of 39 facilities prior to the start of the Olympic Games is an accomplishment of significant proportions. The City of Atlanta received significant negative feedback for being "unprepared" for the games, but the U.S. Postal Service was prepared. We can never know what positive impressions were created in the minds of U.S. residents and foreign visitors as the result of our program -- but looking back on it, two years later, it still seems like a worthwhile expenditure of funds.

-2-

Looking back on it, it is easier to identify the mistakes that were made as well as the additional costs incurred. Probably, the Atlanta Federal Center Post Office was one of the biggest and most costly. We have no objection to any of the recommendations made by the Inspector General's report and hope that the improvements can be accomplished in time for the 2002 Winter Olympics in Salt Lake City, Utah.

  
Bob Davis

Enclosure

cc: Mr. Porras  
Mr. Strange  
Mr. Umscheid



December 1, 1998

MEMORANDUM FOR: Sylvia L. Owens  
Assistant Inspector General  
for Revenue and Cost Containment

SUBJECT: Revised Draft Audit Report  
Atlanta Olympic Facility Improvement Plan

This is in response to your request for information on the feasibility of subletting the 20,000SF of excess space at the Alps Road Postal Facility as identified in the draft audit report. There are a number of limitations which may impact our ability to sublease this space.

They are (1) size: by our measurements the space is closer to 17,000SF; (2) access: entrance from the main parking area is via a stairway and renovations may be required to make the space desirable to a tenant, and (3) parking: no parking is available on the lower level where the vacant space is located. As such, providing for a barrier free space (ABOADA) would be difficult.

The Atlanta District will declare the vacant space on the lower level as excess to their needs and will forward a request to Facilities Asset Management to offer the space for lease. In light of the limitations and constraints listed above, we are skeptical that the USPS could receive anywhere near \$150,000/year for the vacant space and there will likely be some cost involved in making the space marketable.

Regarding the security system, the Atlanta District has budgeted for installation of the security system in their FY99 Line 63 Repair and Alteration budget. The District will comply with this recommendation and the project will be completed this fiscal year.

Contrary to the draft audit report, the Atlanta FSO Manager advises that the vacant space does not contain asbestos.

D. R. Unger

November 27, 1998

SYLVIA L. OWENS  
THROUGH A. KEITH STRANGE

*for A Keith Strange  
12-1-98*

SUBJECT: The Atlanta Olympic Facility Improvement Plan (FLG-AR-99-XXX)

Thank you for the opportunity to comment on your revised draft audit report on the review of the Atlanta Olympic Facility Improvement Plan (AOFIP). We are submitting this response on behalf of Purchasing and Materials. Our comments which address the purchasing issues in the AOFIP report are below.

**PAGE 12, ITEM 11. "Use IQCs only as originally intended, i.e., for repairs and alterations under \$250,000.00."**

Aggressive targetting of facilities in the Atlanta area was planned in January 1995 to be completed by July 1996, with projects having a completion window of 90 to 120 days. This is the reason a deviation in the work order limit for IQC contracts was raised from \$250,000.00 to \$500,000.00. The IQC contracts were chosen as a contract vehicle because the contractors can be mobilized quickly for a wide variety of projects. All IQC contracts are competitively awarded based on a multiplier. Rates used by the USPS are based on market conditions and, therefore, determined to be fair and reasonable. This method of contracting is not the preferred method if low price is the bottom line. However, when there is a need to be flexible on project scope and also to mobilize a contractor on short notice, an IQC contract becomes a best value choice. Increased cost was based on market conditions; high labor/construction demand not solely attributable to IQC type contracts.

**PAGE 12, ITEM 12. "Refrain from accepting modifications to proposals after time of receipt of proposals in order to preserve the integrity of the solicitation process. If an exception is authorized, document USPS rationale for determining that acceptance of the modification is in the USPS' best interest."**

The *Purchasing Manual* (PM) and Provision A-4, Late Submissions and Modifications of Proposals allow consideration. Reference PM 4.2.3 - Receipt of Proposals and PM 4.2.3.b - Modifications and Withdrawal. "Proposals may be modified or withdrawn by written or electronic notice before the specific contract is awarded." Also, PM 4.2.3.c, Part 2 states, "It is normally in the interest of the Postal Service to consider a late proposal if when doing so would not cause a delay in the evaluation process, or the proposal was late because of mishandling after receipt, or the proposal offers significant cost, quality, or technical benefit. It is not in the interest of the postal Service to consider any proposal received so late that its consideration would jeopardize or give the appearance of



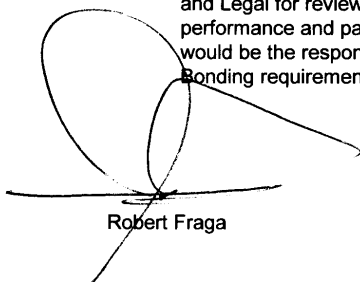
- 2 -

jeopardizing, the integrity of the purchasing process." Further, PM 4.2.3.c, Part 4 states, "Each late proposal must be retained in the solicitation file with a statement as to whether it was considered, and the rationale as to why or why not."

The PM encourages and provides the flexibility to the contracting officer to make wise business decisions. Modifications to proposals will continue to be accepted when the CO determines, in accordance to the PM, it is in the best interest of the Postal Service to accept a late proposal or modification.

**PAGE 12, ITEM 13. "Establish guidance for documenting the propriety and responsibilities for offerors responding as joint ventures."**

Major Facilities Purchasing will forward copies of your concern to both Policies and Legal for review and comment. Currently, projects over \$25,000.00 require performance and payment bonds. Therefore, should the joint venture default, it would be the responsibility of the bonding company to complete the project. Bonding requirements protect USPS exposure on a project.



Robert Fraga

cc: Robert T. Davis  
M. Richard Porras  
Rudolph K. Umscheid